

Efficiencies and Effectiveness Report
Fiscal Year 2012
UM

Since 1998, the University of Missouri System has systematically collected and reported on initiatives that have resulted in increased effectiveness and efficiency of University operations. This report, which focuses on the impact on operations funds, demonstrates how the University is containing costs, operating more efficiently, reallocating resources to strategic priorities, and enhancing revenues beyond receipts from state appropriations and students fees. The results of these efforts have been impressive and demonstrate the University's commitment to responsible stewardship of University assets and resources.

The results of this report are summarized in Table 1 below.

Table 1. Total Efficiencies & Effectiveness, University of Missouri System, FY2012

Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	\$ 3,481,872
Cost Management (Cost Savings or Eliminated Costs)	<u>56,055,347</u>
Total Cost Reductions	\$ 59,537,219
Revenue Enhancements (Operating Resource Increase)	<u>\$ 21,328,306</u>
Total Efficiencies & Effectiveness	\$ 80,865,525

Efficiencies and Effectiveness Report
Fiscal Year 2012
UM

Since 1998, the University of Missouri System has systematically collected and reported on initiatives that have resulted in increased effectiveness and efficiency of University operations. The results of these efforts have been impressive and demonstrate the University's commitment to responsible stewardship of University assets and resources. The fiscal and economic conditions in the State of Missouri during this decade intensified the University's efforts to improve efficiencies through process redesign, consolidation of operations, utilization of technology, strategic reallocation, and various revenue enhancement initiatives. In addition, they have forced measures to cut expenditures and defer investments that cannot be continued indefinitely without significant negative impacts on the institution.

While effectiveness and efficiency efforts have always been a part of the University mode of operations, the development of a standardized format for demonstrating results has given the system and campuses a more definitive method of reporting and sharing operational improvement knowledge across the entire enterprise. In addition, the report demonstrates to citizens, students, and government officials how the University is containing costs, operating more efficiently, reallocating resources to strategic priorities, and enhancing revenues beyond receipts from state appropriations and students fees. However, the University is requiring more and more of our dedicated employees and some of these actions are not sustainable long term. In addition, the University is deferring maintenance and repair expenditures that will lead to significant facilities needs within the next decade if this trend is not reversed.

Reporting Categories

To ensure consistency in reporting, each effectiveness and efficiency initiative is reported in one of three categories described below. The first two are types of **cost reductions** and include initiatives where costs are avoided, contained, reduced or eliminated.

Cost Avoidance can occur if funds are provided by a third party, which allows the business unit to avoid spending general operating (GO) dollars. Examples include, but are not limited to, gifts/endowments that provide funds for existing salaries (e.g., an endowed position); student scholarships; and academic program development or improvements. These actions support a new business model for funding operations such that activities previously funded through the GO budget are sourced from other revenue streams, thus freeing up GO resources to be redeployed to other strategic priorities. Only incremental increases from the prior year are reported.

Cost Management initiatives produce cost savings, contain costs, eliminate costs, or defer expenditures. Actions are considered cost savings if the initiative represents an actual decrease in current operating expenses. In other words, the action will result in the

December 6-7, 2012

fulfillment of a business objective but at a lower cost than previously incurred. Examples include, but are not limited to, cost savings from an open position, a position that is permanently reclassified to a lower salary range; acquisition of equipment, materials, and consumable supplies through strategic contracting at lower cost; and energy conservation resulting in lower utility costs. Cost containment initiatives contain the rise in costs (i.e. actions that reduce the rate of increase in costs). These actions tend to be rate and volume related. Examples could be contracting for reduced rates even when the volume increases or being able to reduce the volume of an item purchased even when the rates increase. Actions are considered cost elimination if the initiative represents an eradication or removal of costs from an operating unit. Examples include, but are not limited to, elimination of a position, closure of an operating unit, discontinuance of a service, and closure of a program. Deferred expenditures are primarily related to maintenance and repair costs and equipment purchases.

Revenue Enhancement: An initiative is classified as revenue enhancement if the action directly increases the operating resources of the business unit. This category excludes governmental appropriations. Revenue enhancement may result from increases in facilities and administrative costs (indirect cost recoveries), entrepreneurial activities, technology transfer, sale of capital assets, sale of surplus property, private gifts, and net student fees due to enrollment increases. Only incremental changes in revenues from the prior year are included.

Common Terminology to Describe Effectiveness and Efficiency Initiatives

In preparing the narrative description of each initiative taken, efforts have been made to use common terms and phrases to the provided clarity and consistency in reporting across business units. The following terms or phrases, while not all inclusive, provide guidance in reporting cost avoidance and cost management initiatives.

- Competitive Contracting and Other Procurement Activities
- Deferral of Maintenance & Repairs
- Energy Conservation
- Operating Expense Reductions
- Postponed Equipment Purchases
- Travel Reductions/Professional Development/Training Cuts
- Workforce Reduction
 - Eliminated Positions
 - Salary Savings/Vacant Positions

Likewise, the following terms or phrases, while not all inclusive, provide guidance to business units in describing initiatives that enhance revenue.

- Entrepreneurial Activities
- Indirect Cost Recovery
- Net Tuition and Fees from Enrollment Growth and Management
- Other Income

Results from Effectiveness and Efficiency Initiatives Fiscal Year 2012

Effectiveness and efficiency actions taken in fiscal year 2012 resulted in a total financial impact of \$80.9 million. Of the total financial results realized in fiscal year 2012, \$59.5 million, or 74%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$21.3 million, or 26%. Table 2 below provides details of the cost reductions by broad categories.

Table 2. Total Cost Reductions, University of Missouri System, FY2012

Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	
Auxiliaries and Other Sources	\$ 2,168,763
Entrepreneurial Activities	26,533
Gifts & Endowments	901,888
Grants	384,688
Total Cost Avoidance	<u>\$ 3,481,872</u>
Cost Management	
Academic Program elimination/consolidation	\$ 330,512
Competitive Contracting & Other Procurement Activities	16,544,358
Deferral of Maintenance & Repairs	23,059,115
Energy Conservation & Savings	2,270,613
Operating Expense Reduction	3,118,989
Other	396,036
Postponed Equipment Purchases	290,963
Strategic Partnerships with external entities	863,722
Technology Initiatives	306,000
Travel Reductions/Professional Development & Training Cuts	62,908
Workforce Reductions - Eliminated Positions	1,483,984
Workforce Reduction - Salary Savings/Vacant Positions	7,328,147
Total Cost Management Initiatives	<u>\$ 56,055,347</u>
Total Cost Reductions	<u>\$ 59,537,219</u>

Cost avoidance initiatives, \$3.5 million in FY2012, represent an intentional financial strategy to off-load current general operating expenses to other funding sources outside the general operating budget. Auxiliaries and Other Sources was the largest source of revenue substitution in FY2012 followed by gifts and endowments.

Cost Management activities contributed \$56.0 million in FY2012. This category includes true cost savings through procurement activities, academic program elimination, energy conservation, and reductions in expenses as well as expenses that are deferred into the future such as postponement of needed maintenance and repair.

Competitive contracting and other procurement activities include negotiated expense reductions, rebates, contract utilization savings, savings through RFP/RFB events, and other similar activities. These activities contribute \$16.5 million of the total financial impact. Operating expense reductions and technology initiatives of \$3.4 million include a combination of savings from business process redesign, using technology more efficiently, cuts in services provided and just generally doing more with less. Energy conservation measures contribute \$2.3 million.

Workforce reductions fall into two categories: eliminated positions, and salary savings from vacant positions. Salary and benefits associated with eliminated positions total \$1.5 million. These funds were used to offset reductions in state appropriations and to fund other more strategically important positions and programs. Salary savings from vacant/open positions totaled \$7.3 million in FY2012. This was accomplished as a result of freezing many positions, and holding other positions open much longer than desirable in order to generate cost savings.

Academic program elimination/consolidation includes salary savings as well as operating cost savings involved in changes in chair positions and in program offerings of \$0.3 million.

Deferral of maintenance and repair expenditures and equipment purchases account for \$23.4 million or 42% of the total. These are truly postponement of expenditures that will have to occur in the future. In the case of facilities, deferral of needed maintenance and repairs over the last ten years has caused the condition of our buildings to decline and our deferred maintenance has grown to \$1.29 billion.

As shown in Table 3, revenue enhancements totaled \$21.3 million in FY2012. Net tuition and fees from enrollment growth and management at the university contributed \$15.1 million or 71% of the total growth in revenues. Increases also came from increased indirect cost recoveries related to grant and contracting activities, entrepreneurial activities such as user fee revenue for dental school equipment purchases, shared revenue from online course offerings and other miscellaneous income for \$4.0 million is mostly a one-time increase in hospital support to the medical school.

Table 3. Revenue Enhancements, University of Missouri System, FY2012

Revenue Enhancements	
Auxiliary and Other Sources	\$ 50,400
Entrepreneurial Activities	774,320
Grants	1,109,194
Indirect Cost Recovery	261,142
Net Tuition & Fees from Enrollment Growth & Management	15,085,000
Other	4,009,933
Sales of Surplus Property	<u>38,317</u>
Total Revenue Enhancements	\$ 21,328,306

Additional details can be found in the appendix tables.

Effectiveness and Efficiency Accountability Report of the
University of Missouri System

Fiscal Year 2012

APPENDIX

MU

Effectiveness and efficiency actions taken in fiscal year 2012 on the MU campus resulted in a total financial impact of \$42.8 million. Of the total financial results realized in fiscal year 2012, \$25.6 million, or 60%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$17.2 million, or 40%, Tables 2a. and 3a. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2a. Total Cost Reductions, MU, FY2012

Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	
Auxiliaries & Other Sources	\$ 1,788,363
Entrepreneurial Activities	26,533
Gifts & Endowments	901,888
Grants	384,688
Total Cost Avoidance	<u>\$ 3,101,472</u>
Cost Management	
Academic Program elimination/consolidation	\$ 330,512
Competitive Contracting & Other Procurement Activities	2,062,897
Deferral of Maintenance & Repairs	11,193,528
Energy Conservation & Savings	1,629,893
Operating Expense Reduction	1,637,029
Postponed Equipment Purchases	290,963
Strategic Partnerships with External Entities	863,722
Technology Initiatives	10,000
Travel Reductions/Professional Development & Training Cuts	62,908
Workforce Reductions - Eliminated Positions	266,241
Workforce Reduction - Salary Savings/Vacant Positions	4,162,346
Total Cost Management Initiatives	<u>\$ 22,510,038</u>
Total Cost Reductions	<u>\$ 25,611,510</u>

Table 3a. Revenue Enhancements, MU, FY2012

Revenue Enhancements	
Entrepreneurial Activities	\$ 221,640
Grants	1,109,194
Indirect Cost Recovery	54,242
Other	4,009,933
Sales of Surplus Property	38,317
Net Tuition & Fees from Enrollment Growth & Management	<u>11,800,000</u>
Total Revenue Enhancements	<u>\$ 17,233,326</u>

December 6-7, 2012

UMKC

Effectiveness and efficiency actions taken in fiscal year 2012 on the UMKC campus resulted in a total financial impact of \$11.8 million. Of the total financial results realized in fiscal year 2012, \$9.4 million, or 79%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$2.4 million, or 21%. Tables 2b. and 3b. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2b. Total Cost Reductions, University of Missouri- Kansas City, FY2012

Cost Reductions	
Cost Management	
Deferral of Maintenance & Repairs	\$ 8,621,840
Energy Conservation & Savings	142,600
Operating Expense Reduction	600,000
Total Cost Management Initiatives	<u>\$ 9,364,440</u>
Total Cost Reductions	<u>\$ 9,364,440</u>

Table 3b. Total Cost Reductions, University of Missouri- Kansas City, FY2012

Revenue Enhancements	
Entrepreneurial Activities	\$ 252,680
Net Tuition & Fees from Enrollment Growth & Management	<u>2,200,000</u>
Total Revenue Enhancements	<u>\$ 2,452,680</u>

Missouri S&T

Effectiveness and efficiency actions taken in fiscal year 2012 on the Missouri S&T resulted in a total financial impact of \$3.8 million. Of the total financial results realized in fiscal year 2012, \$2.4 million, or 63%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$1.4 million, or 37%. Tables 2c. and 3c. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2c. Total Cost Reductions, Missouri S&T, FY2012

Cost Reductions	
Cost Management	
Competitive Contracting & Other Procurement Activities	\$ 408,000
Energy Conservation & Savings	498,120
Operating Expense Reduction	276,363
Workforce Reduction - Salary Savings/Vacant Positions	1,220,552
Total Cost Management Initiatives	<u>\$ 2,403,035</u>
Total Cost Reductions	<u>\$ 2,403,035</u>

Table 3c. Total Revenue Enhancements, Missouri S&T, FY2012

Revenue Enhancements	
Auxiliary and Other Sources	\$ 50,400
Entrepreneurial Activities	300,000
Net Tuition & Fees from Enrollment Growth & Management	1,085,000
Total Revenue Enhancements	<u>\$ 1,435,400</u>

UMSL

Effectiveness and efficiency actions taken in fiscal year 2012 on the UMSL campus resulted in a total financial impact of \$6.4 million. Of the total financial results realized in fiscal year 2012, \$6.2 million, or 97%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$0.2 million, or 3%. Tables 2d. and 3d. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2d. Total Cost Reductions, University of Missouri- St. Louis, FY2012

Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	
Auxiliaries & Other Sources	\$ 380,400
Total Cost Avoidance	\$ 380,400
Cost Management	
Deferral of Maintenance & Repairs	\$ 3,243,747
Operating Expense Reduction	246,100
Other	146,000
Technology Initiatives	296,000
Workforce Reductions - Eliminated Positions	886,900
Workforce Reduction - Salary Savings/Vacant Positions	1,044,600
Total Cost Management Initiatives	\$ 5,863,347
Total Cost Reductions	\$ 6,243,747

Table 3d. Total Cost Reductions, University of Missouri- St. Louis, FY2012

Revenue Enhancements	
Indirect Cost Recovery	\$ 206,900
Table Total Revenue Enhancements	\$ 206,900

UM System Administration

Effectiveness and efficiency actions taken in fiscal year 2012 in the system office resulted in a total financial impact of \$15.9 million across the system. The total financial results were attributed to cost reduction initiatives. Competitive contracting and other procurement activities initiated by the system on behalf of the institution totaled \$14.1 million. The other category of \$250,036 is savings from various workers' compensation initiatives. Table 2e. below provides additional details on the cost reductions.

Table 2e. Total Cost Reductions, University of Missouri System Administration, FY2012

Cost Management	
Competitive Contracting & Other Procurement Activities	\$ 14,073,461
Operating Expense Reduction	359,497
Other	250,036
Workforce Reductions - Eliminated Positions	330,843
Workforce Reduction - Salary Savings/Vacant Positions	900,650
Total Cost Management Initiatives	<u>\$ 15,914,487</u>
Total Cost Reductions	<u>\$ 15,914,487</u>



AdvancingMissouri

University of Missouri
Board of Curators
Finance Committee
December 6-7, 2012

Efficiencies and Effectiveness Report
Fiscal Year 2012
UM

University Stewardship

- » The University of Missouri takes its stewardship responsibility seriously and engages in a continuous process to identify opportunities to reduce costs and increase efficiencies.
- » Since 1998, the University of Missouri System has systematically collected and reported on initiatives that have resulted in increased effectiveness and efficiency of University operations.

FY2012 Efficiencies and Effectiveness Actions

Results for FY2012

» Cost Reductions	\$59.5
> Cost Avoidance	\$ 3.5
> Cost Management	\$56.0
» Revenue Enhancements	<u>21.3</u>
Total Initiatives	\$80.9

\$ in Millions

Cost Avoidance: \$35.3 million in FY2009- FY2012

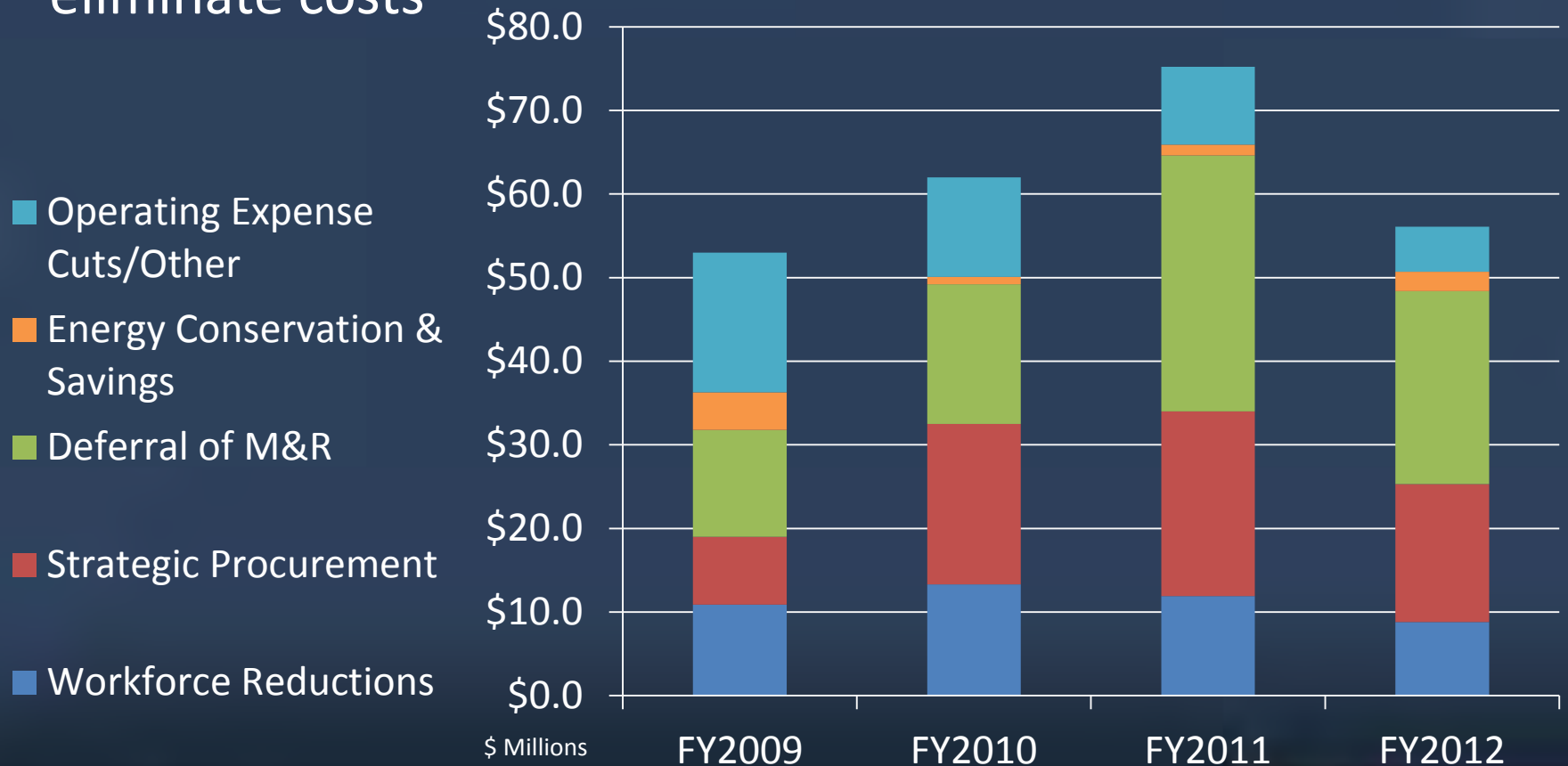
- » Cost Avoidance - shifting funding for activities previously funded from operations to other sources such as gifts, grants, trusts or endowments
- » Examples:
 - › endowed chairs, professorships, or scholarships
 - › grants to fund academic programs & development



December 6-7, 2012

Cost Management: \$246 million in FY2009-FY2012

» Cost Management – initiatives that produce cost savings or eliminate costs



December 6-7, 2012

Cost Management Results FY2012 - \$56 m

Cost Management

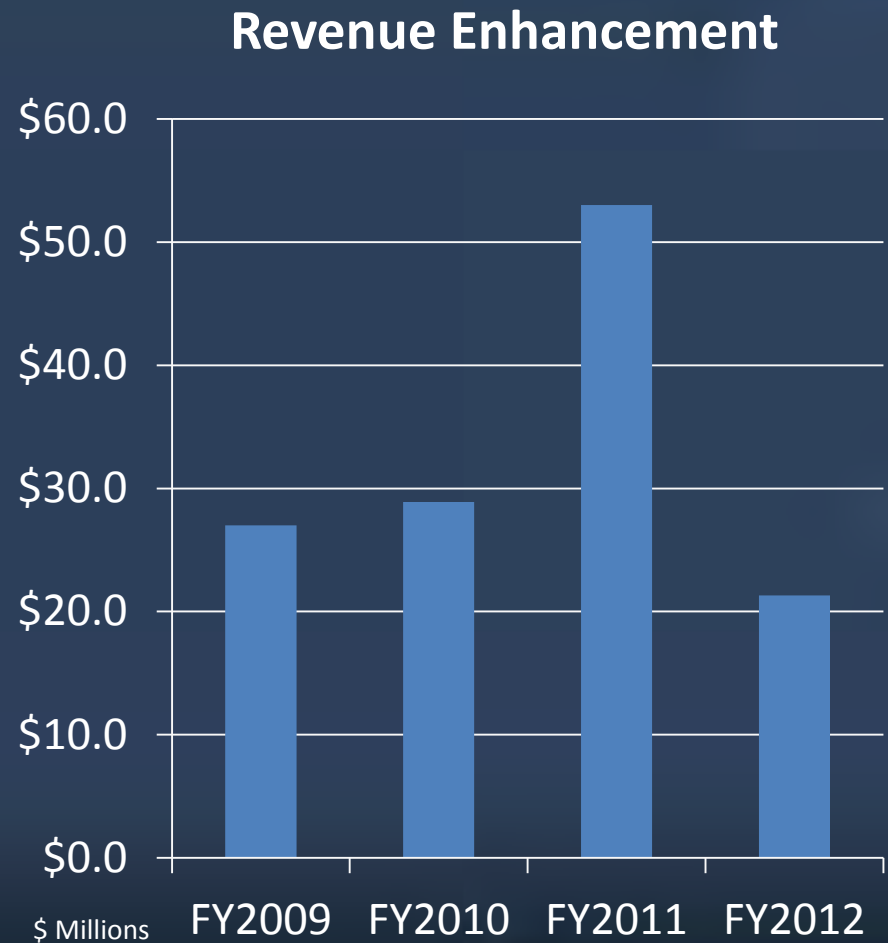
Academic Program elimination/consolidation	\$ 330,512
Competitive Contracting & Other Procurement Activities	16,544,358
Deferral of Maintenance & Repairs	23,059,115
Energy Conservation & Savings	2,270,613
Operating Expense Reduction	3,118,989
Other	396,036
Postponed Equipment Purchases	290,963
Strategic Partnerships with external entities	863,722
Technology Initiatives	306,000
Travel Reductions/Professional Development & Training Cuts	62,908
Workforce Reductions - Eliminated Positions	1,483,984
Workforce Reduction - Salary Savings/Vacant Positions	7,328,147
Total Cost Management Initiatives	<u>\$ 56,055,347</u>

December 6-7, 2012

Revenue Enhancement: \$130 million in FY2009-FY2012

- » Revenue Enhancement – initiatives that directly increase operating resources
- » Examples:
 - › Increases in net tuition from enrollment increases
 - › Indirect cost recoveries
 - › Entrepreneurial activities
 - › Technology transfer

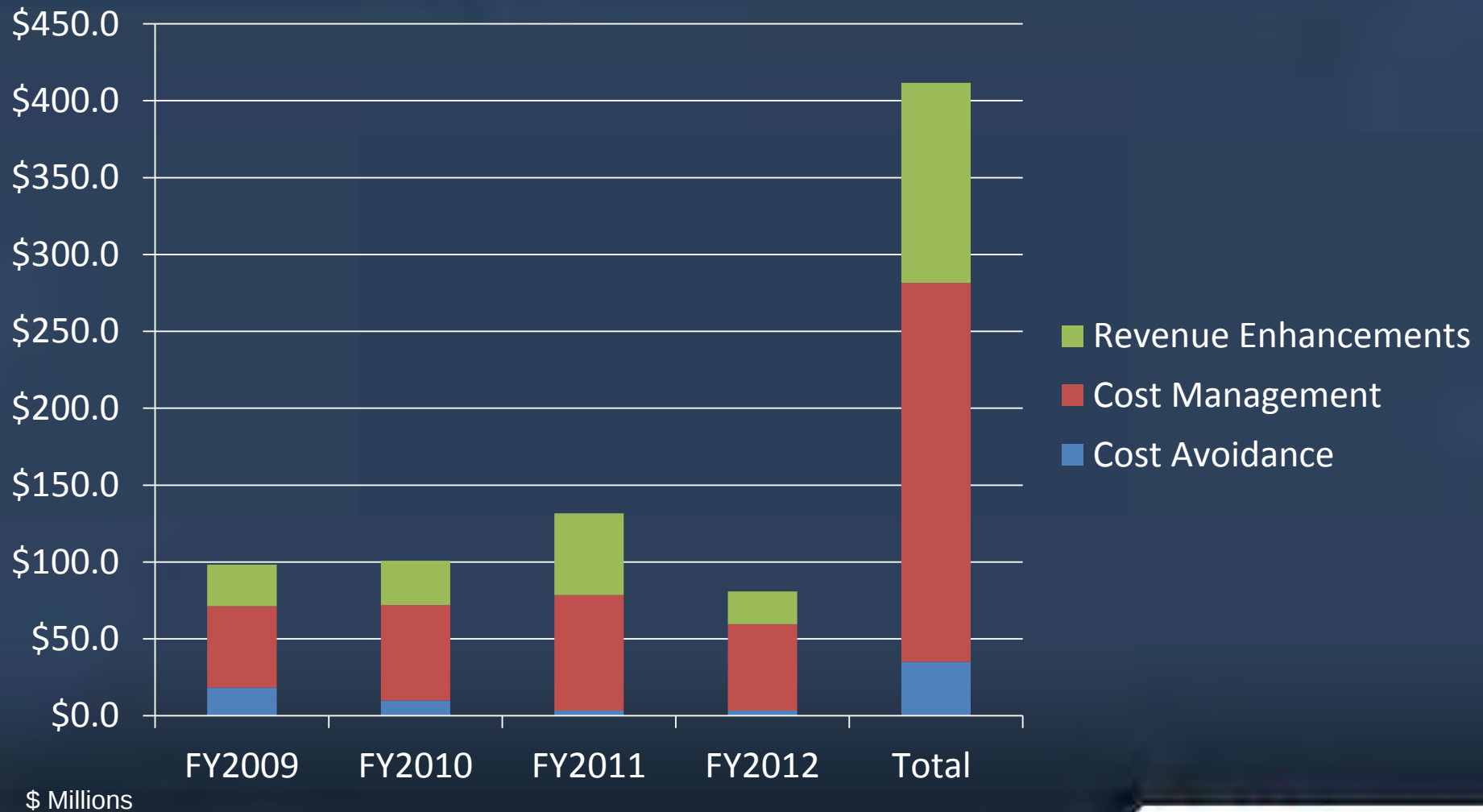
Only marginal increases reported



December 6-7, 2012

Summary Impact of Actions Over Last 4 Years

\$411.7 million



December 6-7, 2012

» Questions

December 6-7, 2012

 **Advancing**Missouri